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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10 – KSB**

(Mark One)

X  ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended **December 31, 2003**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF  
1934 For the transition period from \_\_\_\_\_

Commission File Number 000-29786

**MINES MANAGEMENT, INC.**

(Exact Name of Registrant as specified in its charter)

**IDAHO**

(State or other jurisdiction of incorporation or organization)

**91-0538859**

(I.R.S. Employer Identification Number)

905 W. Riverside Avenue, Suite 311

Spokane, Washington

(Address of principal Executive Office)

99201

(Zip Code)

Registrant's telephone number, including area code: (509) 838-6050

Securities Registered pursuant to Section 12 (g) of the Act: Common Stock, Par Value \$0.01  
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.  
Yes  X  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ( )

State issuer's revenues for its most recent fiscal year: \$6,038

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. Based upon the price at which the common equity was sold at February 20, 2004 (\$7.30) the aggregate market value was \$65,530,596

State the number of shares outstanding of each of the issuer's classes of common equity as of February 24, 2004, 9,874,708 shares of  
Common Stock

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format (check one): Yes (   ) No (  X  )

SEC 2337 (12-03)

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## **PART I**

### **ITEM 1. DESCRIPTION OF BUSINESS**

#### **General**

Mines Management, Inc. (together with its subsidiaries, “MMI” or the “Company”), is engaged in the business of acquiring, exploring, and developing mineral properties, primarily those containing silver and associated base and precious metals. The Company was incorporated under the laws of the State of Idaho on February 20, 1947. The Company has a wholly owned subsidiary, Newhi, Inc. Newhi, Inc. was incorporated under the laws of the State of Washington on November 3, 1987. The Company’s executive offices are located at 905 W Riverside, Suite 311, Spokane, WA 99201.

With the exception of historical matters, the matters discussed in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties that could cause actual results to differ materially from projections or estimates contained herein. Such forward-looking statements include statements regarding planned levels of exploration and other expenditures, anticipated mine lives, timing of production and schedules for development. Factors that could cause actual results to differ materially include, among others, metals price volatility. Most of these factors are beyond the Company’s ability to predict or control. The Company disclaims any obligation to update any forward-looking statement made herein. Readers are cautioned not to put undue reliance on forward-looking statements. (See: Investment Considerations).

The Company’s properties are currently in the exploration stage except for the Montanore property, which is in the stage of determining feasibility for development. No property is currently in production.

The Company’s principal mineral property interest is held by its wholly owned subsidiary, Newhi, Inc., and is referred to as the Montanore Project. The Montanore Project is located in northwestern Montana, USA, and between 1988 and 2002 was operated by Noranda Minerals Corp. During that time the project received an approved Environmental Impact Statement and all of its primary environmental permits. Noranda Minerals reported a geologic resource of 135 million tons containing 0.74% copper and 1.92 ounces of silver per ton. From 1988 to 2002 the Company held royalty rights to a portion of the deposit. In 2002 Noranda announced that it was abandoning the project, and subsequently gave the Company quit claim deeds to mining claims that control the mineral rights, and all core and intellectual property generated during its 14 years of geologic, environmental and engineering studies.

The Company’s principal focus is to continue with the development of the project by undertaking environmental and engineering studies aimed at determining an economically viable operational design, and re-establishing the previously issued environmental permits. Although the Company may engage in mining operations at some future time, substantially all of the Company’s financial support is expected to be derived from equity financing through sales of its shares. The Company also has a small royalty income from a working interest royalty, acquired more than 40 years ago, for several producing oil wells located in Kansas, USA.

The Company continues to hold its Iroquois and Advance zinc-lead properties in Washington on a care and maintenance basis.

### **Competition**

There is aggressive competition within the minerals industry to discover and acquire properties considered to have commercial potential. The Company competes for the opportunity to participate in promising exploration projects with other entities, many of which have greater resources than the Company. In addition, the Company competes with others in efforts to obtain financing to explore and develop mineral properties.

### **Employees**

During the year ending December 31, 2003, the Company had three full-time employees located in Spokane, Washington. The Company's employees are not subject to a union labor contract or collective bargaining agreement. On occasion, directors perform consulting services to the Company at their usual and customary rates.

### **Regulation**

The Company's activities in the United States are subject to various federal, state, and local laws and regulations governing prospecting, development, production, labor standards, occupational health and mine safety, control of toxic substances, and other matters involving environmental protection and taxation. It is possible that future changes in these laws or regulations could have a significant impact on the Company's business, causing those activities to be economically reevaluated at that time.

### **Investment Considerations**

The following Investment Considerations, together with other information set forth in this Form 10-KSB, should be carefully considered by current and future investors in the Company's securities.

#### **Risks Inherent in the Mining Industry**

At present, the Company's principal asset is its interest in the Montanore property. The Company's success is dependent on the extent to which Montanore proves to be successful and on the extent to which the Company is able to acquire or create other property interests.

Mineral exploration and development is highly speculative and capital intensive. The operations of the Company are also indirectly subject to all of the hazards and risks normally incident to developing and operating mining properties. These risks include insufficient ore reserves, fluctuations in production costs that may make mining of reserves uneconomic; significant environmental and other regulatory restrictions; labor disputes; geological problems; failure of pit walls or dams; force majeure events; and the risk of injury to persons, property or the environment.

## Uncertainty of Reserves and Mineralization Estimates

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralization, including many factors beyond the control of the Company. The estimation of reserves and mineralization is a subjective process and the accuracy of any such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may justify revision of such estimates. No assurances can be given that the volume and grade of reserves recovered and rates of production will not be less than anticipated. Assumptions about prices are subject to greater uncertainty and metals prices have fluctuated widely in the past. Declines in the market price of base or precious metals also may render reserves or mineralization containing relatively lower grades of ore uneconomic to exploit. Changes in operating and capital costs and other factors including, but not limited to, short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades, may materially and adversely affect reserves.

## Permitting

In the ordinary course of business, mining companies are required to seek governmental permits for expansion of existing operations or for the commencement of new operations. The Company will be required to obtain numerous permits for its Montanore Project. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions and often involving public hearings and costly undertakings. The duration and success of the Company's efforts to obtain permits are contingent upon many variables not within its control. Obtaining environmental protection permits, including the approval of reclamation plans, may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary permits will be obtained and, if obtained, that the costs involved will not exceed those that had been previously estimated. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that the Company would not proceed with the development or operation of a mine or mines.

## Federal Legislation

From time to time the U.S. Congress may consider revisions in its mining and environmental laws. It remains unclear to what extent any such new legislation may affect existing mining claims or operations. The effect of any such revisions on the Company's operations cannot be determined conclusively until such revision is enacted; however, such legislation could materially increase costs on properties located on federal lands, and such revision could also impair the Company's ability to develop its mineral projects.

## Fluctuations in the Market Price of Minerals

The profitability of mining operations is directly related to the market price of the metals being mined. The market price of base and precious metals such as copper and silver fluctuate widely and is affected by numerous factors beyond the control of any mining company. These factors include expectations with respect to the rate of inflation, the exchange rates of the dollar and other currencies, interest rates, global or regional political, economic or banking crises, and a number of other factors. If the market

price of silver or copper should drop dramatically, the value of the Company's Montanore Project could also drop dramatically, and the Company might not be able to recover its investment in that project. The determination to develop or construct a mine, to place it into production, and the dedication of funds necessary to achieve such purposes are decisions that must be made long before the first revenues from production will be received. Price fluctuations between the time that such decisions are made and the commencement of production can drastically affect the economics of a mine.

The volatility in metals prices is illustrated by the following table, which sets forth, for the periods indicated, the yearly high and low prices in U.S. dollars per ounce for silver and the high and low yearly average prices for copper in U.S. dollars per pound.

Year	<u>Silver Price Per Ounce</u>		<u>Copper Price Per Pound</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1996	\$5.79	\$4.67	\$1.17	\$0.91
1997	\$6.39	\$4.18	\$1.14	\$0.87
1998	\$7.09	\$4.80	\$0.85	\$0.65
1999	\$5.71	\$4.93	\$0.83	\$0.62
2000	\$5.36	\$4.61	\$0.91	\$0.75
2001	\$4.80	\$4.07	\$0.82	\$0.60
2002	\$5.15	\$4.30	\$0.76	\$0.65
2003	\$5.95	\$3.34	\$1.04	\$0.68

### Environmental Risks

Mining is subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of mineral exploration and production. Insurance against environmental risk (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) is not generally available to the Company (or to other companies in the minerals industry) at a reasonable price. To the extent that the Company becomes subject to environmental liabilities, the satisfaction of any such liabilities would reduce funds otherwise available to the Company and could have a material adverse effect on the Company. Laws and regulations intended to ensure the protection of the environment are constantly changing, and are generally becoming more restrictive.

### Title to Properties

Although the Montanore deposit is held by patented mining claims, a significant portion of the Company's holdings consist of unpatented lode and mill site claims. The validity of unpatented mining claims is often uncertain, and such validity is always subject to contest. Unpatented mining claims are unique property interests and are generally considered subject to greater title risk than patented mining claims, or real property interests that are owned in fee simple. The Company has not filed a patent application for any of unpatented claims that are located on federal public lands in the United States and, under possible future legislation to change the General Mining Law, patents may be hard to obtain. Although the Company has attempted to acquire satisfactory title to its undeveloped properties, the Company does not generally obtain title opinions until financing is sought to develop a property, with the attendant risk that title to some properties, particularly title to undeveloped properties, may be defective.

## **ITEM 2. DESCRIPTION OF PROPERTIES**

The significant properties in which the Company has an interest are described below. Reference is made to footnotes in the financial statements for more information on the properties. For its assessment of the Montanore Project the Company relies on the considerable body of technical, environmental, and legal data generated by Noranda Minerals, who owned and operated the Montanore Project from 1988 through 2002.

### **Montanore Property**

The Montanore Project is located in Sanders and Lincoln Counties, northwestern Montana. Landholdings include a number of patented and unpatented lode mining claims and mill sites, which cover approximately 1700 acres. The unpatented lode claims and mill sites are owned outright by the Company and are held subject to a \$100 per claim annual payment to the Federal Government. The Montanore deposit can be reached from Noxon, the nearest town, by taking State Highway 200 about 2 miles to the east and thence north about 5 miles on a secondary graveled road to the junction of the west and east forks of Rock Creek. From this point it is about a 4-mile hike up a Jeep trail behind a locked U.S. Forest Service gate to the deposit outcrop. The deposit outcrops near the border of, and lies entirely within the Cabinet Wilderness Area. The Company's holdings for operational access and infrastructure support for the project are located to the east, south of the town of Libby, and are accessed from that major supply point by about 16 miles of secondary road up Libby Creek.

The deposit occurs within rocks of the Belt Super Group, Precambrian metasediments that crop out over much of western Montana, northern Idaho, and parts of adjacent British Columbia. The Montanore is one of 3 similar deposits to have been found within Revett Formation quartzite of the Belt Supergroup. These include the Troy deposit, which was mined between 1981 and 1992, and the Rock Creek deposit, located less than 1 mile to the west of Montanore, which is currently under environmental assessment.

Silver and copper values within the Revett Formation are disseminated, and confined to one or more adjacent quartzite strata separated by unmineralized beds. The deposits are characterized by great lateral extent, relatively uniform grades, and thicknesses that range up to 100 feet. Often the deposits are bounded by a paleo growth fault, considered to have been active during rock sedimentation and mineral deposition. Mineralization consists in varying parts of bornite, primary chalcocite, and chalcopyrite.

The Montanore deposit has been defined as being at least 12,500 feet long and varies between 500 and 4,000 feet in width. The long axis of the deposit trends in a northwesterly direction parallel with a regional fault that bounds the mineralization of the southwest. The deposit dips approximately 12 degrees to the northwest, parallel with its long axis. Mineralization occurs within two mineralized beds over much of the deposit's length. Overall the upper zone averages 29.9 feet in thickness and the lower zone 34.8 feet. Unmineralized strata between beds varies between 20 and 200 feet thick. On the basis of 27 surface drill holes Noranda has reported a deposit containing and estimated 135 million tons and averaging 0.74% copper and 1.92 ounces of silver to the ton. The deposit remains open to the Northwest within the Company's extra-lateral rights.

The Company's ownership of the Montanore deposit stems primarily from its ownership of 2 patented mining claims which cover the surface outcrop or "apex" of the gently dipping mineralized beds. According to US mining law, claims covering the apex of a dipping, tabular deposit own the minerals to depth, even if the deposit passes from beneath the apex claim. For the Company's claims at Montanore these "extralateral rights" have been confirmed by the US Secretaries of Agriculture and Interior and upheld in US District Court. In addition to the patented apex claims, the Company owns unpatented claims located along the fault which bounds the southwestern margin of the deposit, and which extend outside of the western border of the Cabinet Wilderness Area.

In 1988, Newhi, Inc., a Washington corporation and wholly owned subsidiary of Mines Management, Inc. acquired the assets of Heidelberg Silver Mining Co., Inc. through a corporate merger. The assets acquired by the Company consisted primarily of 34 unpatented mining claims located along the fault that borders the Montanore deposit, and a 4 acre patented mill site. In 1993 the Company determined that 18 of the mining claims were immaterial to the maintenance of its interest in the Montanore project and these claims were dropped. Of the remaining 16 claims owned by the Company, 11 claims were leased to Noranda Minerals Corp. who was responsible for their yearly upkeep. Under terms of the lease agreement, the Company was paid an annual payment of \$25,000, and was to receive a percentage of the net profits for material taken from beneath its claims.

In 1983, U.S. Borax and Chemical Corporation discovered a major silver/copper deposit, later to be named the Montanore deposit, which extended in part beneath what is now the Company's property. In 1984 a lease agreement, relative to 11 claims, was entered into between U.S. Borax and the Company's predecessor, Heidelberg. Subsequently U.S. Borax conducted more than 70,000 feet of core drilling from the surface, which outlined the bedded silver/copper mineralization.

In 1988, U.S. Borax and partners sold their interest in the project to a Joint Venture made up of Noranda Minerals Corp. and Montana Reserves Co. Noranda became the project operator, and the project name was changed to Montanore. In 1993 the Joint Venture was dissolved with Noranda retaining rights to the project.

In late 1989, Noranda began a major tunneling program from a point east of the Cabinet Wilderness Area. The purpose of the program was to more accurately define and develop a portion of the deposit containing approximately 30 million tons. The proposed work was to include a 3-mile long decline and approximately 2,000 feet of lateral development in the vicinity of the deposit. Close spaced drilling was planned from these workings and bulk metallurgical samples were to be taken during this phase. In December 1991, tunneling was stopped at approximately 14,000 feet, or about 2,000 feet short of the deposit, pending the completion of the project's Environmental Impact Statement (EIS). Also during the year Noranda completed the process to acquire patents to the two "apex" claims controlling the deposit.

During 1993 the project Environmental Impact Statement (EIS) was approved and all of the important permits for the mine were granted. As part of the EIS process, this approval was subject to appeal, and several appeals were made. In 1994, after due consideration, the US Forest Service denied all appeals.

In 1991 an environmental group had brought suit against Noranda and the US Forest Service concerning the validation of Noranda's apex claims. In 1993 the US Secretary of Agriculture found that Noranda's mining claims were valid, and in 1997 the Federal District Court hearing the case also ruled that Noranda's claims were valid. The court decision was appealed and in March, 1999 the U.S. Court of Appeals for the Ninth Circuit upheld the U.S. District Court decision. In 2001 The U.S. Government issued patents for the two claims covering the apex of the deposit and thus assuring Noranda ownership of the Montanore deposit.

In 2002, Noranda gave notice to the Company that it was abandoning its rights to the project. Under terms of its agreement Noranda was bound to quit claim deed any claims that overlapped the original Heidelberg claims to the Company. As the newly patented apex claims were overlapping, Noranda deeded these key claims to the Company's subsidiary, Newhi, Inc. in August 2002. The mineral rights acquired by the Company are subject to a \$0.20 per ton royalty, and a 5% Net Profits royalty which would commence after the operator has recovered all of its exploration and development costs. In December 2002, Noranda gave the Company a quit claim deed to all geologic, environmental, and engineering data generated during their 14 year management of the project. Over 70,000 feet of drill core were deeded to the Company in addition to the intellectual property.

### **Advance and Iroquois Properties**

The Company owns the Advance and Iroquois zinc-lead properties located in northeastern Washington State, approximately 6 miles south of the Canadian border. The properties are situated 5 miles apart along a belt of Cambrian carbonate sediments that have acted as host rocks for several former mines. Both properties are easily accessible on secondary graveled roads by two wheel drive vehicles. A large zinc smelter and refinery is located at Trail, British Columbia, Canada, approximately 17 miles distant over excellent roads.

The Company was originally formed in 1947 to explore the Advance and Iroquois properties. Since that time, Mines Management has leased its holdings to major companies including: Rare Metals, Inc. (El Paso Natural Gas) 1959-65, The Bunker Hill Company 1962-65, Cominco American, Inc. 1966-67 and 1974-75, Brinco, Ltd. (RTZ Group) 1977-78, and Equinox Resources Ltd. 1989-91. Total expenditures on the properties to date are estimated to be at least \$1,500,000.

The Advance and Iroquois properties are located along the Deep Lake Trend, a northeast-striking belt of Cambrian carbonate rocks collectively designated as the Metaline Limestone. Rocks of the Deep Lake Trend have been strongly folded and faulted by numerous high-angle as well as thrust faults. As a result the Metaline Limestone has a complex outcrop pattern, with steeply overturned bedding.

Zones of brecciation are found throughout the Metaline Limestone and are often, but not always, the location of zinc and lead sulfide mineralization. These features are predominantly stratabound and have gradational, often irregular borders. Individual breccia bodies are crudely lensoid in cross section and have third dimensions that attain considerable length. The zones often occur in an enechelon, and sometimes interconnected, pattern. A variety of evidence suggests that the breccia bodies are solution collapse features controlled by favorable stratigraphy or lithologic facies.



Mineralization consists of irregular bands, lenses, and fine disseminations of sphalerite and galena accompanied by varying amounts of pyrite. The mineralization is considered to have been localized by permeable zones within and peripheral to breccia bodies created by solution collapse. The sulfide minerals are found in white dolomite that makes up the breccia matrix and fills other voids, and also as selective replacements of the host carbonate rocks. Individual deposits have irregular gradational borders and are crudely lensoidal to oval in outline. Their elongated third dimension parallels the regional strike of the host rocks, and often plunge at low angles. Cross sectional widths up to 80 feet and heights of as much as 150 feet have been noted in the more prominent zones. Lengths of mineralization vary up to 650 feet. The deposits have a tendency to occur together in an enechelon pattern over a stratigraphic interval of as much as 300 feet. Such groupings of deposits may be more or less interconnected and have composite lengths of as much as 5000 feet. Metal values generally decrease outward thus necessitating a border to be established by economic consideration. Although individual sample values within a deposit may be as high as 20% zinc, average values for a deposit will usually range up to 7% zinc and 1% lead depending upon the “assay border” selected.

The Advance property consists of 720 acres of patented mineral rights, located approximately 5 miles east of the town of Northport. The property is reached from Northport, the nearest town, by taking the paved Deep Lake road south for 4 miles to the graveled Black Canyon road and thence north for 3 miles. The Metaline Formation is the principal rock unit to crop out on the Advance property. Exploration consisting of soil sampling, drilling, trenching, and tunneling has shown that several zones of low-grade, disseminated zinc mineralization occur on the property. The Advance property is considered to be of an exploratory nature, and is held by the Company on a maintenance basis.

The Iroquois property consists of 62 acres of patented mineral and surface rights, and 15 unpatented mining claims containing about 300 acres. The property is reached from Northport, the nearest town, by taking the paved Deep Lake road south and east for 19 miles to the graveled road marked Iroquois Mine Road, and thence northeast for three miles. The unpatented mining claims are held subject to a \$100 per claim annual payment to the Federal government. More than 25,000 feet of drilling and approximately 2,600 feet of tunneling have shown low-grade mineralization to occur in multiple zones, extending for the entire 5,000 foot length of the property. Most of the exploration has been concentrated in one area where a mineralized zone of disseminated zinc with associated lead values has been outlined over approximately 900 feet in length and within 300 feet of the surface. The property is considered to be of an exploratory nature and is held by the company on a maintenance basis.

### **Oil Interests**

The Company receives income from a 10.16% working interest in 4 oil wells on the Clark lease in Sumner County, Kansas. Although the lease has now produced for more than 40 years, independent consultants calculated the Company’s 1981 share of the remaining reserves available through primary and secondary recovery to be at least 20,000 barrels. Production since 1981 has totaled approximately 9600 barrels to the Company’s account.

### **ITEM 3. LEGAL PROCEEDINGS**

None

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

### **PART II**

#### **ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES**

The Common Stock of the Company is traded in the over the counter market on the NASDAQ supervised Bulletin Board under the symbol "MNMM". The following table shows the high and low closing sales prices for the Common Stock for each quarter since January 1, 2002. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

<u>Fiscal Year</u>	<u>High Closing</u>	<u>Low Closing</u>
2002:		
First Quarter	\$0.13	\$0.05
Second Quarter	\$0.22	\$0.05
Third Quarter	\$0.83	\$0.15
Fourth Quarter	\$1.25	\$0.73
2003:		
First Quarter	\$2.65	\$1.60
Second Quarter	\$1.80	\$1.20
Third Quarter	\$3.70	\$3.04
Fourth Quarter	\$7.25	\$3.04

#### **Holders**

As of February 24, 2004 there were 1,047 shareholders of record of the Company's common stock and approximately 1,415 additional shareholders whose shares are held through brokerage firms or other institutions.

#### **Dividends**

The Company has never paid any dividends and does not anticipate the payment of dividends in the foreseeable future.

### **Securities Authorized for Issuance Under Equity Compensation Plans.**

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders	1,300,000	\$3.33	-0-
Equity compensation plans not approved by shareholders	270,000	\$4.73	1,230,000 <sup>(1)</sup>
Total	1,570,000		1,230,000

(1) The Company's 2003 Stock Option Plan has been amended by the Board of Directors to increase the total number of options issuable pursuant to the plans from 1,200,000 to 3,000,000. The amendment to the plan will be, but has not yet been, submitted to the shareholders for approval. Options in excess of the 1,200,000 may be granted but not exercised until receipt of shareholder approval.

### **Stock Option Plans**

#### **2003 Stock Option Plan**

The 2003 Stock Option Plan is structured as so that both incentive stock options qualified under the Internal Revenue Code and non qualified stock options may be issued. The Plan is administered under the auspices of the Board of Directors. It is intended, that to the extent possible, the exercise of Stock Options will be exempt from the operation of Section 16(b) of the Securities Exchange Act of 1934, as amended.

Options are exercisable for a maximum of ten (10) years. Transferability is prohibited except for limited circumstances regarding the demise of an Optionee. The maximum number of shares available for issue upon the exercise under the plan was originally set at 1,200,000 shares. As noted above, this number has been increased to 3,000,000 subject to shareholder approval. The number of shares issuable pursuant to the plan is subject to proportionate adjustment in the event of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares or other similar corporate change.

The option exercise price for Incentive Stock Options may be no less than the fair market value on the date of grant of the Option, except that the exercise price for any ten percent (10%) shareholder must be 110% of the fair market value on the date of grant. The option price for the Non-Qualified Stock Options is the lowest allowable price under applicable law.

### Consultant Stock Compensation Plan

The Mines Management, Inc. 2003 Consultant Stock Compensation Plan is intended to promote the interests of the Company by offering those outside consultants or advisors of the Company who assist, or, as determined in the sole discretion of the Board, can assist in the development and success of the business of the Company, the opportunity to participate in a compensation plan designed to reward them for their services and to encourage and/or retain them to provide services to the Company.

Options are exercisable for a maximum of ten (10) years. Transferability is prohibited except for limited circumstances regarding the demise of an Optionee. The maximum number of shares was originally set at 400,000. This number has been increased by the Board of Directors to 700,000. The number of shares issuable pursuant to the plan is subject to proportionate adjustment in the event of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares or other similar corporate change.

### Recent Sales of Unregistered Securities

In February, 2004, the Company completed an offering of 1,100,000 shares of common stock at a price of \$5.00 per share. Each purchaser in the offering received a common stock purchase warrant pursuant to which the purchaser has the right to acquire up to the number of shares of common stock equal to 25% of the shares to be issued to such purchaser. The stock purchase warrants are valid to purchase shares of the Company's common stock for a period of five years at a price of \$7.25 per share. The Company has agreed to register the shares of common stock and common stock underlying the common stock purchase warrants. Each purchaser has a right to purchase up to 100% of any subsequent financing by the Company of its common stock or common stock equivalents for the 12 months following completion of the offering.

The Shemano Group, Inc, received a finder's fee in the amount of seven percent of the gross proceeds (\$385,000) and 165,000 common stock purchase warrants. The warrant pricing, terms and registration rights are identical to those rights accorded purchasers in the offering. After payment of approximately \$50,000 of legal fee in connection with the offering, net proceeds to the Company were approximately \$5,065,000. As additional consideration Shemano received a right of first refusal to act as the Company's investment banker in connection with any private placement or registered offering of any type for debt or equity of not less than \$5 million for a period of one year.

The shares were offered and sold to institutional investors. None of the shares were offered by means of advertising or general solicitation. Each of the sales by the Company was made pursuant to exemptions from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) and Rule 506 of Regulation D. Each of the certificates issued in connection with the above sales contained restrictive language on its face and each certificate had a restrictive legend in substantially the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN

AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

The Company is currently engaged in the offer and sale of up to 250,000 Units of the Company's common stock at a price of \$5.00 per Unit. Each unit consists of one share of common stock and one common stock purchase warrant, exercisable for five years from the initial exercise date, to purchase up to 25% of the shares purchased at a price of \$7.25 per share. The Company has agreed to register the shares of common stock and common stock underlying the common stock purchase warrants at the same time the securities sold by the Shemano Group are registered.

Offers and sales are being made by the officers and directors of the Company. Although the Company may pay finder's fees in connection with the offering, no fees will be paid to officers, directors or employees of the Company. At February 24, 2004 the Company has offered and sold 155,800 Units for gross proceeds of \$779,000. The Units have been sold to 10 purchasers, each of whom is an accredited or institutional investor.

None of the shares were offered by means of advertising or general solicitation. Each of the sales by the Company was made pursuant to exemptions from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) and Rule 506 of Regulation D. Each of the certificates issued in connection with the above sales contains a restrictive legend in substantially the same form as set forth above.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

### **Plan of Operation**

The Company's plan of operation for the next twelve months will consist of a continuing examination of the geologic, environmental, and engineering data previously generated by Noranda for the Montanore Project, including the completion of a Mining Plan and Feasibility Report, an independent resource calculation and hiring of additional technical staff. It is anticipated that the Company will also undertake the re-permitting of the Montanore project sometime in 2004.

It is the Company's intention to begin the process of identifying and acquiring additional properties for the exploration and development of precious and related base metals.

With the completion of the \$5,500,000 private placement in February, 2004 the Company has adequate financial resources to meet its cash needs for the next twelve months.

Although the Company anticipates that it will hire additional employees during the next twelve months much of the anticipated work will be accomplished through the employment of consultants.

**ITEM 7. FINANCIAL STATEMENTS**

**MINES MANAGEMENT, INC.  
AND SUBSIDIARY**

**Consolidated Financial Statements and  
Independent Auditors' Report**

**December 31, 2003 and 2002**

# Mines Management, Inc. and Subsidiary

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Mines Management, Inc.  
Spokane, Washington

We have audited the accompanying consolidated balance sheets of Mines Management, Inc. (an Idaho Corporation) and Subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mines Management, Inc. and Subsidiary as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, Mines Management, Inc., changed its method of accounting for stock-based compensation in 2003.

/s/ LeMASTER & DANIELS PLLC

Spokane, Washington  
February 19, 2004



# Mines Management, Inc. and Subsidiary

## Consolidated Balance Sheets

	December 31,	
	2003	2002
		(as restated)
<i>Assets</i>		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 282,637	\$ 263,475
Accounts receivable	-	760
Interest receivable	15,742	-
Prepaid expenses	7,500	500
Total current assets	<u>305,879</u>	<u>264,735</u>
<i>MINERAL PROPERTIES</i>	504,492	368,681
<i>PROPERTY AND EQUIPMENT:</i>		
Mine buildings	12,926	11,031
Equipment	44,098	44,098
Office equipment	35,141	12,596
	<u>92,165</u>	<u>67,725</u>
Less accumulated depreciation	<u>67,061</u>	<u>64,858</u>
	<u>25,104</u>	<u>2,867</u>
<i>INVESTMENTS:</i>		
Certificates of deposit	1,000,000	-
Available-for-sale securities	54,260	14,298
	<u>1,054,260</u>	<u>14,298</u>
	<u>\$ 1,889,735</u>	<u>\$ 650,581</u>

See accompanying notes to financial statements.

## Mines Management, Inc. and Subsidiary

### Consolidated Balance Sheets

	December 31, 2003	2002 (as restated)
<i>Liabilities and Stockholders' Equity</i>		
<i>CURRENT LIABILITIES:</i>		
Accounts payable	\$ 26,869	\$ 43,438
State income taxes payable	800	164
Due to officer	12,583	-
Severance currently payable	60,000	-
Payroll taxes payable	8,404	1,971
Total current liabilities	<u>108,656</u>	<u>45,573</u>
<i>OTHER LIABILITIES:</i>		
Severance payable, long term	<u>80,000</u>	<u>-</u>
Total liabilities	<u>188,656</u>	<u>45,573</u>
<i>COMMITMENTS</i>		
<i>STOCKHOLDERS' EQUITY:</i>		
Common stock – 100,000,000 shares, \$0.01 par value, authorized; 8,724,708 and 6,202,956 shares issued and outstanding	87,247	62,030
Preferred stock – 10,000,000 shares, no par value, authorized	-	-
Additional paid-in capital	4,186,497	1,879,985
Retained earnings (deficit)	(2,615,760)	(1,340,140)
Accumulated other comprehensive income	43,095	3,133
Total stockholders' equity	<u>1,701,079</u>	<u>605,008</u>
	<u>\$ 1,889,735</u>	<u>\$ 650,581</u>

See accompanying notes to financial statements.

# Mines Management, Inc. and Subsidiary

## Consolidated Statements of Income

	Years Ended December 31,	
	2003	2002 (as restated)
<i>REVENUE:</i>		
Royalties	\$ 6,038	\$ 5,470
<i>OPERATING EXPENSES:</i>		
Depreciation	2,203	844
Administrative	116,024	3,770
Legal, accounting, and consulting	90,802	28,094
Miscellaneous	823	8,287
Oil and gas operating	3,208	1,442
Rent and office	47,522	6,257
Salaries, officer and staff	216,612	13,649
Taxes and licenses	21,836	5,692
Telephone	8,493	3,966
Exploration	-	7,454
Fees, filing, and licenses	24,234	25,043
Commissions	68,440	-
Directors' and officers' compensation	140,000	150,000
Stock option expense	560,800	52,480
Total operating expenses	1,300,997	306,978
<i>LOSS FROM OPERATIONS</i>	(1,294,959)	(301,508)
<i>OTHER INCOME:</i>		
Interest	16,115	430
Miscellaneous	3,224	-
	19,339	430
<i>NET LOSS</i>	<u><u>\$ (1,275,620)</u></u>	<u><u>\$ (301,078)</u></u>
<i>NET LOSS PER SHARE</i>	<u><u>\$ (0.180)</u></u>	<u><u>\$ (0.055)</u></u>
<i>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</i>	<u><u>7,234,703</u></u>	<u><u>5,472,460</u></u>

See accompanying notes to financial statements.

**Mines Management, Inc. and Subsidiary**

**Consolidated Statements of Stockholders' Equity  
Years Ended December 31, 2003 and 2002**

	Common Stock		Issuable Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
<i>BALANCES, DECEMBER 31, 2001</i>	4,946,956	\$49,470	90,000	\$22,500	\$1,362,365	\$(1,039,062)	\$846	\$396,119
Common stock issued for cash	786,000	7,860	-	-	295,340	-	-	303,200
Common stock issued for services	5,000	50	-	-	1,950	-	-	2,000
Common stock issued to directors	375,000	3,750	-	-	146,250	-	-	150,000
Issuance of stock options	-	-	-	-	52,480	-	-	52,480
Issuable common stock issued	90,000	900	(90,000)	(22,500)	21,600	-	-	-
Comprehensive loss:								
Adjustment to net unrealized gain on marketable securities	-	-	-	-	-	-	2,287	2,287
Net loss	-	-	-	-	-	(301,078)	-	(301,078)
Comprehensive loss								(298,791)
<i>BALANCES, DECEMBER 31, 2002 - restated</i>	6,202,956	62,030	-	-	1,879,985	(1,340,140)	3,133	605,008
Common stock issued for cash	1,960,506	19,605	-	-	1,751,324	-	-	1,770,929
Exercise of stock options	561,246	5,612	-	-	(5,612)	-	-	-
Issuance of stock options	-	-	-	-	560,800	-	-	560,800
Comprehensive loss:								
Adjustment to net unrealized gain on marketable securities	-	-	-	-	-	-	39,962	39,962
Net loss	-	-	-	-	-	(1,275,620)	-	(1,275,620)
Comprehensive loss								(1,235,658)
<i>BALANCES, DECEMBER 31, 2003</i>	8,724,708	\$87,247	-	\$-	\$4,186,497	\$(2,615,760)	\$43,095	\$1,701,079

See accompanying notes to financial statements.

# Mines Management, Inc. and Subsidiary

## Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2003	2002 (as restated)
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<b><i>CASH FLOWS FROM OPERATING ACTIVITIES:</i></b>		
Net loss	\$(1,275,620)	\$ (301,078)
Adjustments to reconcile net loss to net cash used in operating activities:		
Issuance of common stock to directors	-	150,000
Issuance of common stock for services	-	2,000
Issuance of stock options	560,800	52,480
Common stock received in exchange for services performed	-	(11,165)
Depreciation	2,203	844
Changes in assets and liabilities:		
Accounts receivable	760	1,764
Interest receivable	(15,742)	-
Prepaid expenses	(7,000)	-
Accounts payable	(3,986)	40,845
Severance payable	140,000	-
State income taxes payable	636	-
Payroll taxes payable	6,433	966
Net cash used in operating activities	<u>(591,516)</u>	<u>(63,344)</u>
<b><i>CASH FLOWS FROM INVESTING ACTIVITIES:</i></b>		
Purchase of office equipment	(24,440)	(1,873)
Purchase of certificates of deposit	(1,000,000)	-
Increase in mineral properties	<u>(135,811)</u>	<u>(8,501)</u>
Net cash used in investing activities	<u>(1,160,251)</u>	<u>(10,374)</u>
<b><i>CASH FLOWS FROM FINANCING ACTIVITIES:</i></b>		
Proceeds from sales of common stock	<u>1,770,929</u>	<u>303,200</u>
<b><i>NET INCREASE IN CASH AND CASH EQUIVALENTS</i></b>	<u>19,162</u>	<u>229,482</u>
<b><i>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</i></b>	<u>263,475</u>	<u>33,993</u>
<b><i>CASH AND CASH EQUIVALENTS, END OF YEAR</i></b>	<u><u>\$ 282,637</u></u>	<u><u>\$ 263,475</u></u>
 <b><i>Supplemental Disclosure of Cash Flows Information:</i></b>		
Income taxes paid	\$ 549	\$ 150
 <b><i>Noncash Financing Activity:</i></b>		
Issue shares of common stock for services	\$ -	\$ 152,000

See accompanying notes to financial statements.

## **Mines Management, Inc. and Subsidiary**

### **Notes to Consolidated Financial Statements**

#### ***NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***

##### *Organization:*

Mines Management, Inc. (the Company) is a publicly held Idaho corporation incorporated in 1947. The Company acquires, explores, and develops mineral and oil properties principally in North America. The Company performed exploration activities in South America in 2002.

##### *Summary of Significant Accounting Policies:*

- a. The accompanying consolidated financial statements include the accounts of Mines Management, Inc., and its wholly-owned subsidiary, Newhi, Inc. Intercompany balances and transactions have been eliminated. Newhi, Inc., was formed by the Company for the purpose of merger with Heidelberg Silver Mining Company, Inc. In the merger, completed on April 15, 1988, Heidelberg Silver Mining Company, Inc., was merged into Newhi, Inc. To effect the merger, the Company issued 367,844 shares of its previously unissued common stock. Also in connection with this merger, the Company issued 11,117 shares of common stock and paid \$4,446 as a finders' fee.
- b. The Company capitalizes acquisition and exploration costs on nonoperating mining properties. Costs to maintain the mineral rights and leases are expensed as incurred. Upon commencement of operations, the capitalized costs will be amortized based on proven or probable reserves. Capitalized costs are charged to operations as impairment losses when title to the property has expired or when management believes the properties are not economically feasible to develop or hold for future development.
- c. In accordance with Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for Impairment of Long-Lived Assets*, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. Management does not believe that any impairment adjustment is needed to the carrying value of assets at December 31, 2003.
- d. Property and equipment are stated at cost. Buildings and leasehold improvements are depreciated on the straight-line basis over an estimated useful life of 39 years. Machinery and furniture are generally being depreciated using accelerated methods over estimated useful lives ranging from 5 to 10 years.
- e. Basic and diluted loss per share are computed using the weighted average number of shares outstanding during the year (7,234,703 and 5,472,460 in 2003 and 2002, respectively). Stock options and warrants outstanding are antidilutive and are not considered in the computation.
- f. Cash and cash equivalents include cash on hand, cash in banks, investments in certificates of deposit with maturities less than 90 days, and money market funds.

## **Mines Management, Inc. and Subsidiary**

### **Notes to Consolidated Financial Statements**

#### **NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** **(continued):**

##### *Summary of Significant Accounting Policies (continued):*

- g. Deferred income tax is provided for differences between the bases of assets and liabilities for financial and income tax reporting. A deferred tax asset, subject to a valuation allowance, is recognized for estimated future tax benefits of tax-basis operating losses being carried forward.
- h. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.
- i. Certain reclassifications of 2002 amounts have been made to conform with the 2003 financial statement presentation with no effect on previously reported net loss.
- j. At December 31, 2003, the Company has four stock option plans, which are described more fully in note 6. Prior to 2003, the Company accounted for stock options issued under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. No stock-based employee compensation was recognized in previously reported financial statements under APB No. 25, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant. Effective January 1, 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, for all stock-based employee compensation. In adopting FASB No. 123, the Company elected to restate the prior year presented (2002) to reflect the compensation cost that would have been recognized had the recognition provisions of FASB No. 123 been applied to the stock options granted for that year. The restatement resulted in a \$52,480 increase in the previously reported 2002 net loss (\$0.01 per share) and in additional paid-in capital.

#### **NOTE 2 — STOCKHOLDERS' EQUITY:**

##### *Common Stock:*

In 2002, the Company sold 370,000 common shares for \$37,000 (\$0.10 per share). In connection with the stock sales, the Company granted warrants to purchase up to 370,000 common shares at \$0.20 per share through June 10, 2003. As of December 31, 2002, warrants for 50,000 shares had been exercised, and the remaining warrants for 320,000 shares were exercised in 2003.

In 2002, the Company sold 366,000 common shares for \$256,200 (\$0.70 per share). In connection with the stock sales, the Company granted warrants to purchase up to 366,000 common shares at \$0.80 per share through November 23, 2003. During 2003, warrants for 316,000 were exercised.

# Mines Management, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### NOTE 2 — STOCKHOLDERS' EQUITY (continued):

#### Common Stock (continued):

In 2003, the Company sold 1,152,007 common shares for \$1,267,207 (\$1.10 per share). In connection with the stock sales, the Company granted warrants to purchase up to 1,152,007 common shares at \$1.20 per share through two years from the date of issue. During 2003, warrants for 122,501 shares had been exercised.

At December 31, 2003, warrants to purchase 1,029,506 common shares at \$1.20 per share were outstanding.

#### Preferred Stock:

The Company has authorized 10,000,000 shares of no-par-value preferred stock. Through December 31, 2003, the Company had not issued any of the authorized preferred stock.

### NOTE 3 — MINING PROPERTIES:

Mining properties are comprised of acquisition, exploration, and development costs related to the Advance and Iroquois properties in the Northport region of northeastern Washington State and the Montanore property in northwestern Montana, as shown below:

	December 31,	
	2003	2002
Montanore	\$278,519	\$142,708
Advance	2,139	2,139
Iroquois	<u>223,834</u>	<u>223,834</u>
	<u>\$504,492</u>	<u>\$368,681</u>

The Montanore property (formerly the Noxon property) located in northwestern Montana includes 18 mining claims covering 355 acres plus one 5-acre patented mill site. In August 2002 the Company acquired controlling interest of the Montanore silver copper deposit in Sanders County, Montana. The Company received a quitclaim deed from Noranda Mineral Corp. (Noranda) that elected to withdraw from the project. The mineral rights acquired by the Company are subject to a \$0.20 per ton royalty, and a 5% net profits royalty which would commence after the operator has recovered all of its exploration and development costs. Between 1988 and 2002 Noranda carried out extensive geological, environmental, and engineering studies related to the project that is considered to be one of the largest silver deposits in the world. This work led to Noranda's definition of a resource of 135 million tons containing 260 million ounces of silver and 2 billion pounds of copper. In December 2002, the Company received a quitclaim deed to all intellectual property connected with studies that Noranda carried out on the project.

The Advance property consists of 720 acres of patented mineral rights. Although the Company does not own the overlying surface rights to its patented mineral rights, it does have right of access to explore and mine.

The Iroquois property consists of 64 acres of patented mineral and surface rights and 15 unpatented mining claims containing 300 acres.



## **Mines Management, Inc. and Subsidiary**

### **Notes to Consolidated Financial Statements**

#### ***NOTE 4 — INVESTMENTS:***

The Company owns ten \$100,000 certificates of deposit. These investments mature in 2008 and earn interest at rates from 3.3% to 3.64%.

The Company owns 45,000 free-trading shares of Bitterroot Resources, Ltd. (BTT) a public Canadian corporation traded on the Toronto Venture Exchange. The shares are held as “available for sale.” This investment is being recorded at fair market value with a corresponding adjustment to stockholders’ equity. The 45,000 free-trading shares at December 31, 2003 and 2002, have an approximate market value of \$20,893 and \$3,133 U.S. funds, respectively. The Company also owns 196,000 free-trading shares of Centram Exploration Ltd., a public Canadian corporation traded on the Toronto Venture Exchange. The shares are held as “available for sale.” The shares were received in year 2002 in exchange for administrative services provided by Mines Management, Inc. The 196,000 free-trading shares at December 31, 2003 and 2002, have an approximate market value of \$33,367 and \$11,165 U.S. funds, respectively.

#### ***NOTE 5 — SEVERANCE AGREEMENT:***

During the year ended December 31, 2003, the Company entered into a severance agreement with a former officer. The agreement provides for annual severance payments, payable in equal monthly installments, through April 30, 2006. As of December 31, 2003, the Company had the following obligations under the agreement:

<u>Years Ending December 31,</u>	<u>Amount</u>
2004	\$ 60,000
2005	60,000
2006	<u>20,000</u>
	\$140,000
	<u><u>          </u></u>

#### ***NOTE 6 — STOCK OPTIONS:***

During the year ended December 31, 1998, the stockholders of the Company approved two stock-based compensation plans: a nonqualified stock-based compensation plan and a qualified performance-based plan. Under the nonqualified plan, the Company may grant options to purchase up to 460,000 shares of common stock. The option price shall not be less than the fair market value on the date of grant of the shares. Stock options shall be exercisable within ten years from the date of the grant of the option. Options granted under the nonqualified plan to date were fully vested upon grant.

# **Mines Management, Inc. and Subsidiary** **Notes to Consolidated Financial Statements**

## **NOTE 6 — STOCK OPTIONS (continued):**

At December 31, 2003, the following 1998 nonqualified plan options were outstanding:

<u>Optionee</u>	<u>Number of Shares Granted</u>	<u>Option Price</u>	<u>Option Period</u>	<u>Expiration</u>
Directors:				
Jerry Pogue	100,000	\$0.40 per share	5 years	September 15, 2007

Under the 1998 qualified plan, the Company may grant options to purchase up to 460,000 shares of common stock. The option price shall not be less than the fair market value on the date of grant of the shares. Stock options shall be exercisable within ten years from the date of the grant of the option. Options granted under the qualified plan to date were fully vested upon grant.

At December 31, 2003, the following 1998 qualified plan options were outstanding:

<u>Optionee</u>	<u>Number of Shares Granted</u>	<u>Option Price</u>	<u>Option Period</u>	<u>Expiration</u>
Glenn Dobbs	100,000	\$0.82 per share	5 years	December 4, 2007

During the year ended December 31, 2003, the stockholders of the Company approved two new stock-based compensation plans – the 2003 Stock Option Plan (which includes both qualified and nonqualified options) and the 2003 Consultant Stock Compensation Plan. Under the 2003 Stock Option Plan, the Company may grant options to purchase up to 1,200,000 shares of common stock. Under the 2003 Consultant Stock Compensation Plan the Company may grant options to purchase up to 400,000 shares of common stock.

Under both 2003 plans the option price shall be no less than 100% of the fair market value per share on the date of grant. Stock options shall be exercisable within ten years from the date of the grant of the option. Vesting of the options granted under both plans is at the prerogative of the Board of Directors. Options granted under the plans in 2003 were vested immediately except for options issued to Glenn Dobbs, President and Chairman of the Board of Directors. Options issued to Glenn Dobbs were 50% vested at December 31, 2003, and become fully vested upon completion of certain financing arrangements.

**Mines Management, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

**NOTE 6 — STOCK OPTIONS (continued):**

At December 31, 2003, the following options were outstanding under the 2003 Stock Option Plan:

<u>Optionee</u>	<u>Number of Shares Granted</u>	<u>Option Price</u>	<u>Option Period</u>	<u>Expiration</u>
Glenn Dobbs	500,000	\$1.60 per share	5 years	March 4, 2008
Douglas Dobbs	40,000	\$1.60 per share	5 years	March 4, 2008
Samantha Pitts	10,000	\$1.60 per share	5 years	March 4, 2008
Roy Franklin	10,000	\$1.85 per share	5 years	August 27, 2008
Bob Russell	100,000	\$1.85 per share	5 years	August 27, 2008
Glenn Dobbs	<u>100,000</u>	\$1.85 per share	5 years	August 27, 2008
	760,000			

At December 31, 2003, the following options were outstanding under the 2003 Consultant Stock Compensation Plan:

<u>Optionee</u>	<u>Number of Shares Granted</u>	<u>Option Price</u>	<u>Option Period</u>	<u>Expiration</u>
Jerry Pogue	100,000	\$1.85 per share	5 years	August 27, 2008

See note 9 regarding subsequent option grants and changes to the 2003 plans.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions from grants in 2002 and 2003, respectively: dividend rate of 0% for both years, price volatility of 35% and 95%, risk-free interest rates of 3.03 and 1.69, and expected lives of five years for 1998 Plan options issued before December 31, 2002, and one year for the 1998 Plan options issued during 2003, and two years for the 2003 Plan options.

**Mines Management, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

**NOTE 6 — STOCK OPTIONS (continued):**

The following summarizes option activity for the years presented:

	Shares Under Option	Weighted-Average Exercise Price Per Share
Balance, at January 1, 2002	450,000	\$0.38
Issued	410,000	0.51
Forfeited	-	-
Exercised	-	-
Balance at December 31, 2002	860,000	0.44
Issued	920,000	1.66
Forfeited	-	-
Exercised	(720,000)	0.46
Balance at December 31, 2003	1,060,000	\$1.49

Options outstanding at December 31, 2003, have a remaining contractual life of approximately four years.

**NOTE 7 — CONCENTRATION OF CREDIT RISK:**

The Company maintains its cash and cash equivalents in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution.

**NOTE 8 — DEFERRED INCOME TAX:**

At December 31, 2003 and 2002, the Company had deferred tax assets which were fully reserved by valuation allowances. Following are the components of such assets and allowances:

	December 31, 2003	2002
Deferred tax assets arising from:		
Net operating loss carryforwards	\$185,000	\$114,000
Stock option compensation	96,000	8,000
Accrued severance compensation	21,000	-
	302,000	122,000
Less valuation allowance	302,000	122,000
Net deferred tax assets	\$ -	\$ -

## **Mines Management, Inc. and Subsidiary**

### **Notes to Consolidated Financial Statements**

#### ***NOTE 8 — DEFERRED INCOME TAX (continued):***

For the years presented, the effective income tax rate differed from the expected rate because of the effects of annual changes in the deferred tax asset valuation allowance. Changes in the deferred tax asset valuation allowance for 2003 and 2002 relate only to corresponding changes in deferred tax assets for those years.

At December 31, 2002, the Company had federal tax-basis net operating loss carryforwards totaling approximately \$1,230,000, which will expire in various amounts from 2004 through 2023.

#### ***NOTE 9 — SUBSEQUENT EVENTS:***

Subsequent to December 31, 2003, the following events occurred:

1. The Company completed a private placement stock offering in which 1,100,000 shares were issued at \$5 per share for a total of \$5,500,000 gross proceeds. In addition, the Company granted the purchasers warrants allowing the purchase of 275,000 shares at \$7.25. The warrants expire five years from issuance. The Company paid finder's fee of 7% cash (\$385,000) and warrants to purchase 165,000 common shares at \$7.25 per share.
2. The Company commenced (but did not close) a second private placement stock offering in which up to 250,000 shares may be issued at \$5 per share. In addition, the Company will grant one warrant for four shares sold allowing the purchase a common share at \$7.25.
3. The Board of Directors granted options to purchase 650,000 common shares under the 2003 Stock Option Plan. The Board also approved, subject to stockholder approval, increases in the maximum number of common shares available under the 2003 Stock Option Plan to 3,000,000 shares and 700,000 shares under the 2003 Consultant Stock Compensation Plan.

## **ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no disagreements between the Company and its accountants regarding any matter or accounting principles or practices or financial statement disclosures. The Company elected to engage the services of LeMaster & Daniels PLLC to undertake its audit for the Year ended December 31, 2003.

### **ITEM 8-A. CONTROLS AND PROCEDURES**

Glenn M. Dobbs, the Registrant's President and acting Principal Accounting Officer has evaluated the Registrant's disclosure controls and procedures within 90 days of the filing date of this annual report. Based upon this evaluation, the Registrant's President and Principal Accounting Officer concluded that the Registrant's disclosure controls and procedures are effective in ensuring that material information required to be disclosed is included in the reports that it files with the Securities and Exchange commission.

There were no significant changes in the Registrant's internal controls or, to the knowledge of the management of the Registrant, in other factors that could significantly affect these controls subsequent to the evaluation date.

## **PART III**

### **ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

#### **Directors and Officers**

<u>Name</u>	<u>Age</u>	<u>Office with the Company</u>	<u>Appointed to Office</u>
Glenn M. Dobbs (1)	60	President, Chief Executive Officer and Treasurer	2003
Roy G. Franklin (2)(3)	68	Director	1988
Robert L. Russell (2)(3)	70	Director	1999
Jerry Pogue	62	Director	1999
Russell C. Babcock (3)	67	Director	2004

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(1) Glenn M. Dobbs served as the Company's Vice-President from December 2002 until his appointment as President and Chief Executive Officer in January 2003 and Treasurer in 2004.

(2) Member of Compensation Committee.

(3) Member of Audit Committee.

The directors are elected for a one-year term and until their successors have been elected and qualified. Executive Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of shareholders and until their successors have been elected and qualified. There are no arrangements or understandings between any of the directors, executive officers, and other persons pursuant to which any of the foregoing persons were named as Directors or executive officers. There is no family relationship between any Director, Executive Officer, or person nominated or chosen by the Registrant to become a Director or Executive Officer.

Glenn Dobbs has broad experience in international finance, investment banking, natural resource financing and as a business development consultant. Mr. Dobbs was the founder of the Alpha Commodities Fund in 1976, founder and Board Chairman of First American Bank in 1978, Dallas regional manager for Monex International, founder of the InterGold (Hedge) Fund in 1996, and a former member of the Washington State House of Representatives. Mr. Dobbs has written and lectured extensively on precious metals sector investing, resource development and financing.

Robert L. Russell, a Professional Engineer, has been a director of the Company since March, 1999. Since September 1998 Mr. Russell has provided mining management consulting services through his consulting company, R.L. Russell Associates. Mr. Russell has held positions with Exxon Minerals and Freeport McMoRan Copper and Gold, where he served as Vice President of Mining. Mr. Russell acted as General Manager of Freeport's Indonesian operations, which have become the largest gold mine in the world. From 1995 to 1998 Mr. Russell was employed by Zambia Consolidated Copper Mines, most recently as General Manager of the Nchanga Division. In that position Mr. Russell was responsible for all functions of two operating mines and several metallurgical facilities. Under Mr. Russell, the Nchanga Division had 8700 employees and produced 150,000 tons of copper and 3500 tons (about 12% of the world's supply) of cobalt per year.

Jerry G. Pogue is a businessman with an extensive background in the management and financing of junior resource companies. He has managed a large sales organization, has worked as a highly successful stockbroker and investment analyst, and has financed and managed a number of companies in the resource and technology sectors. He frequently lectures at international mining investment conferences.

Roy G. Franklin is a certified public accountant with 30 years experience in small company administration and finance. He was formerly a director of Heidelberg Silver Mining Company and is a principal in the accounting firm of Oswalt, Teel, and Franklin, P.S.

Russell C. Babcock received a B.S. degree from Lawrence College, Appleton, Wisconsin, in 1957 and an M.S. degree from the University of Wisconsin, Madison, in 1959. He joined Kennecott's exploration subsidiary, Bear Creek Mining Company, part time in 1956 and full time in 1959 as an exploration geologist. He was appointed Director of Exploration for Kennecott in Salt Lake City in January, 1986. In November, 1990, he became Chief Geologist for Kennecott. Mr. Babcock retired from Kennecott in 1994 and is currently a consulting economic geologist, specializing in exploration for and evaluation of base and precious metal deposits worldwide. In 2003 he was the recipient of the Society for Mining Metallurgy, and Exploration Ben Dickerson Award.

None of the Directors is also a director of any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to Section 15(d) of the Act, or of any company registered under the Investment Company Act of 1940.

No Director, or person nominated to become a Director or Executive Officer, has been involved in any legal action involving the Company during the past five years.

Promoters and Control Person: Not Applicable

### **Compliance with Section 16(a) of the Exchange Act**

Based solely upon a review of forms 3 and 4 and amendments thereto furnished to the Registrant pursuant to Section 240.16a-3 during the most recent fiscal year, and Form 5 and amendments thereto furnished to the Registrant with respect to the most recent fiscal year, no person who at any time during the fiscal year was a director, officer, or beneficial owner or more than ten percent of any class of equity securities of the Registrant registered pursuant to Section 12 of the Exchange Act, or any other person subject to Section 16 of the Exchange Act with respect to the Registrant because of the requirements of Section 30 of the Investment Company Act or Section 17 of the Public Utility Holding Company Act (A reporting person) failed to file on a timely basis, as disclosed in the above Forms, reports required by Section 16(a) of the Exchange Act during the most recent fiscal year or prior fiscal years, except William R. Green (one report, 1 transaction), Glenn Dobbs (one report, 4 transactions), Robert L. Russell (one report, 8 transactions) and Jerry Pogue (one report, 9 transactions).

### **Board Committees**

The compensation committee, which was appointed in 2003, is composed of Messrs. Franklin and Russell. The entire board performs the functions of the Nominating Committee.

Glenn Dobbs, Roy B. Franklin, Robert L. Russell and Jerry G. Pogue, comprising the entire Board of Directors, performed the functions of the Audit Committee during the year ended December 31, 2003. The audit committee recommends a firm of independent certified public accountants to audit the annual financial statements, discusses with the auditors and approves in advance the scope of the audit, reviews with the independent auditors their independence, the financial statements and their audit report, reviews management's administration of the system of internal accounting controls, and reviews the Company's procedures relating to business ethics. Messrs Franklin, Russell and Pogue are deemed to be independent directors as that term is defined in Rule 4200(a)(14) of the NASD's listing standards.

Subsequent to year end the Company has appointed an audit committee comprised of Roy G. Franklin, Robert L. Russell and Russell C. Babcock. Each member of the audit committee is deemed to be independent director as that term is defined in Rule 4200(a)(14) of the NASD's listing standards. The Company did not have a written audit committee charter during 2003 but has adopted a written audit committee charter in connection with the appointment of the audit committee.



## ITEM 10. EXECUTIVE COMPENSATION

A summary of cash and other compensation for the Company's President and Chief Executive Officer for each of the Company's last completed three fiscal years is as follows:

### Summary Compensation Table

#### Long-Term Compensation

(a) Name and Principal Position	Annual Compensation				Awards		Payouts	
	(b) Year	(c) Salary (\$)	(d) Bonus (\$)	(e) Other Annual Comp. (\$)	(f) Restricted Stock Awards(1) (\$)	(g) Securities Underlying Options/ SARs(#)	(h) LTIP Payouts (\$)	(i) All Other Comp. (\$)
William R. Green President	2001	\$ 9,500	\$0	\$0	\$ 0	-0-	\$0	\$0
	2002	\$13,649	\$0	\$0	\$30,000	100,000	\$0	\$0
	2003	\$20,000	\$0	\$0	\$0	-0-	\$0	\$40,000
Glenn M. Dobbs President and Chief Executive Officer	2002	\$0	\$0	\$0	\$0	100,000	\$0	\$0
	2003	\$70,000	\$0	\$0	\$0	600,000	\$0	\$0

### Option/SAR Grants In Last Fiscal Year

(a) Name	Individual Grants			
	(b) Number of Securities Underlying Options/SARs Granted (#)	(c) % of Total Options/SARs Granted to Employees in Fiscal Year	(d) Exercise or Base Price (\$/Sh)	(e) Expiration Date
Glenn M. Dobbs	500,000	52.1%	\$1.60	03/04/08
Glenn M. Dobbs	100,000	10.4%	\$1.85	08/27/08

### Director Compensation For Last Fiscal Year

During the fiscal year ended December 31, 2003 each of the Company's non-employee directors was awarded stock options as set forth in the following table.

Number of Shares Granted	Optionee	Option Price	Option Period	Expiration
10,000	Roy Franklin	\$1.85 per share	5 years	August 27, 2008
100,000	Jerry Pogue(1)	\$1.85 per share	5 years	August 17, 2008
100,000	Robert L. Russell	\$1.85 per share	5 years	August 27, 2008
110,000	Total	\$1.85 per share	5 years	August 27, 2008

(1) Mr. Pogue's options were issued in consideration for consulting services rendered to the Company.

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### Security Ownership of Certain Beneficial Owners

The following table sets forth information as of February 24, 2004 regarding any person known to the Company to be the beneficial owner of more than five percent of any class of the Company's voting securities.

Title of Class	Name of Beneficial owner	Amount and nature of Beneficial Ownership	Percent of Class (1)
Common	William R. Green	575,345	5.83%
Common	Terry Tyson	526,000	5.33%

(1) Based on 9,874,708 shares outstanding

### Security Ownership of Management

The following table sets forth certain information as of February 24, 2004 regarding the number and percentage of shares of Common Stock of the Company or any of its parents or subsidiaries beneficially owned (as such term is defined in Rule 13d-3 under the Exchange Act) by each director, each of the named executive officers and directors and executive officers as a group:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Common	Glenn M. Dobbs	430,919 shares (2) 850,000 vested options	4.36%
Common	Roy G. Franklin	246,281 shares 50,000 vested options	2.49 %
Common	Robert L. Russell	113,857 shares 150,000 vested options	1.15%
Common	Jerry G. Pogue	106,857 shares 250,000 vested options	1.08 %
Common	Russell C. Babcock	-- 25,000 vested options	--
Common	Total of all officers and directors (5 individuals)	897,914 shares 1,375,000 vested options	9.09 %

(1) Based on 9,874,708 shares outstanding

(2) Include 241,500 shares held of record by Intergold Fund Limited

## **Changes in Control**

There are no arrangements known to the Registrant the operation of which may at a subsequent time result in the change of control of the Registrant.

### **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On January 15, 2003 the Company entered onto a severance agreement with Dr. William R. Green. Dr. Green had served as the President of the Company since 1965. Under the terms of the severance agreement, Dr. Green remained an employee of the Company until April 30, 2003 to assist in the transition of the new President and Chief Executive Officer. Thereafter, Dr. Green will receive the sum of \$60,000 per year, payable in monthly installments, for the next 36 months.

On August 18, 2004, Jerry Pogue, a director of the Company was issued options to acquire 100,000 shares of stock at a price of \$1.85 per share for consulting services rendered to the Company. The options are fully vested and expire on August 17, 2008.

Douglas Dobbs, son of Glenn Dobbs, President and a director of the Company, is employed by the Company as Director of Corporate Development and Investor Relations. Douglas Dobbs was employed by the Company prior to Glenn Dobbs becoming an officer or director of the Company. During the year ended December 31, 2003 Mr. Dobbs received a salary of \$52,000 and was granted 40,000 options exercisable for 5 years at the then market price of \$1.60 per share.

Except as set forth above, there have been no transactions or series of transactions, or proposed transactions during the last two years to which the Registrant is a party in which any director, nominee for election as a director, executive officer or beneficial owner of five percent or more of the Registrant's common stock, or any member of the immediate family of the foregoing had or is to have a direct or indirect material interest exceeding \$60,000.

### **ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

(a) the following documents are filed as part of the report:

1. Financial Statements

Accountants' Report

Consolidated Balance Sheets

December 31, 2003 and 2002

Consolidated Statements of Operations and Comprehensive Income  
for the years ended December 31, 2003 and 2002

Consolidated Statement of Changes in Stockholders' Equity  
for the years ended December 31, 2003, and 2002

Consolidated Statements of Cash Flows  
for the years ended December 31, 2003, and 2002

Notes to Financial Statements

## 2. Exhibits required by Item 601

- (2) Plan of Acquisition, reorganization, arrangement, liquidation or succession.(1)
- (3)(i) Articles of Incorporation (2)
- (3)(ii) Bylaws. (2)
- (4) Instruments defining the rights of security holders, including indentures.
- (4) (i) Mines Management, Inc., 1998 Stock Option Plan (2)
- (4) (ii) Mines Management, Inc., 1998 Incentive Stock Option Plan (2)
- (4) (iii) Mines Management, Inc., 2003 Stock Option Plan (2)
- (4) (iv) Mines Management, Inc., 2003 Consultant Stock Compensation Plan(2)
- (9) Voting trust agreements. (1)
- (10) Material contracts.
- (10)(i) William R. Green Separation Agreement
- (10)(ii) Glenn Dobbs Executive Compensation Agreement
- (11) Statement re: computation of per share earnings. (1)
- (12) Statements re: computation of ratios. (1)
- (13) Annual report to security holders, Form 10Q or quarterly report to security holders.(1)
- (14) Code of Ethics
- (31) Rule 13a-14(a)/15d-14(a) Certifications
- (31)(i) Certification of Glenn Dobbs
- (32) Section 1350 Certifications
- (32)(i) Certification of Glenn Dobbs
- (16) Letter re: change in certifying accountant. (1)
- (18) Letter re: change in accounting principles .(1)
- (19) Subsidiaries of the Registrant. (2)
- (22) Publisher report regarding matters submitted to vote of security holders. (1)
- (99) Additional Exhibits.
- (99)(i) Audit Committee Charter
- (99)(ii) Form of Audit Committee Pre-approval Policies

(1) These items have either been omitted or are not applicable

(2) Incorporated by reference to previous filing

- (b) Reports on Form 8-K. No reports on Form 8-K have been filed during the last quarter of the period covered by this report.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

### **Audit Fees**

The aggregate fees billed for professional services rendered by the Company's principal accountant for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2003 and 2002 were \$26,800 and \$7,000 respectively.

#### *Audit Related Fees*

The Company incurred no fees during the last two fiscal years for assurance and related services by the Company's principal accountant that were reasonably related to the performance of the audit of the Company's financial statements.

#### *Tax Fees*

The Company incurred fees totaling \$1,500 and \$1,000 during the fiscal years ended December 31, 2003 and 2002, respectively, for professional services rendered by the Company's principal accountant for tax compliance, tax advice and tax planning.

#### *All Other Fees*

The Company incurred no other fees during the last two fiscal years for products and services rendered by the Company's principal accountant.

## **SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE EXCHANGE ACT BY NON-REPORTING ISSUERS**

Not Applicable

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MINES MANAGEMENT, INC.

/s/ Glenn M. Dobbs

By: \_\_\_\_\_

GLENN M. DOBBS

President (Principal Executive Officer)

Treasurer (Principal Financial Officer)

Date: February 27, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Glenn M. Dobbs

\_\_\_\_\_  
GLENN M. DOBBS, Director

Date: February 27, 2004

/s/ Roy G. Franklin

\_\_\_\_\_  
ROY G. FRANKLIN, Director

Date: February 27, 2004

/s/Robert L. Russell

\_\_\_\_\_  
ROBERT L. RUSSELL, Director

Date: February 27, 2004

Jerry G.;. Pogue

\_\_\_\_\_  
JERRY G. POGUE, Director

Date: February 27, 2004

Exhibit (10)(i)  
William R. Green Separation Agreement

**SEPARATION AGREEMENT AND RELEASE OF CLAIMS  
(Severance Package)**

This Agreement, (the "Agreement") is entered into this 15th day of January 2003 by and between William R. Green ("Green") and Mines Management, Inc., an Idaho corporation ("Mines") collectively referred to hereafter as the "Parties".

WHEREAS, Green is the Chairman of the Board of Directors and served the Company continuously from 1969 until January 15, 2003 as its President;

WHEREAS, Green's leadership and services have constituted a major factor in the successful growth and development of the Company;

WHEREAS, in the judgment of the Board of Directors of the Company (the "Directors"), it is of material value to the Company to secure Green's services to provide for the orderly transition of new management of the Company, and it is of value to Green that his responsibilities, remuneration and other benefits be determined as hereinafter provided;

WHEREAS, the Parties wish to settle any and all claims either party may have or may have had against the other, and to define the nature of the relationship of the parties from this date forward; and

WHEREAS, the terms, conditions and undertakings of this Agreement were submitted to and duly approved and authorized by the Company's Board of Directors;

NOW THEREFORE, the parties agree as follows:

**I. EMPLOYMENT**

- A. Green shall remain employed as an employee of Mines through April 30, 2003 ("Transition Period").
- B. During the Transition Period, Green's responsibilities shall be as determined by the President of the Company.
- C. The terms and conditions of Green's compensation during the Transition Period shall remain the same as existed immediately before he ceased employment as the President of the Company on January 15, 2003.

## **II. SEVERANCE PAYMENTS**

- A. Commencing on May 1, 2003 Green shall receive annual severance payments in the amount of \$60,000, payable in equal monthly installments.
- B. The severance payments shall be paid for a period of three (3) years terminating on April 30, 2006.
- C. In the event that Green dies during the term of this Agreement, the provisions of this Agreement shall survive his death and any payment to be made to Green pursuant to this Agreement shall be paid to his then spouse, if any, if she is living on the date of his death. In the event that Green's spouse is not living on the date of his death, then any payment to be made to Green pursuant to this Agreement shall be paid to the legal representative of Green's estate.
- D. In the event that any payment to Green would cause Mine's cash (or cash equivalent) position to fall below one hundred thousand dollars (\$100,000), then any payments to Green shall be deferred. At such time as Mine's cash (or cash equivalent) position improves to the point that payment to Green would not cause such position to fall below one hundred thousand dollars (\$100,000), then Mines shall pay all deferred monies due to Green, plus interest at eight percent (8%) per annum.

## **III. STOCK OPTIONS**

All stock options exercisable by Green shall expire on May 30, 2003. All or any part of the purchase price of such options may be made by surrendering Shares of Mines Management, Inc. common stock that are already owned by Green. Such shares shall be surrendered to the Company in good form for transfer and shall be valued at their fair market value on the date when such Options are exercised.

## **IV. UNEMPLOYMENT**

In the event Green should file for unemployment compensation and Mines is contacted regarding the circumstances of Green's separation of employment, Mines will not make any response to the Department of Employment Security which would indicate either that Green voluntarily terminated his employment or that he was terminated for cause. Mines will not contest Green's application for unemployment compensation.

## **V. INDEMNIFICATION AND RELEASE**

In consideration of the foregoing and other good and valuable consideration, the receipt of which is hereby acknowledged, each of the Parties hereby agrees each to release all other Parties from any claim for liability, damages, injury, or any other matter arising out of the past business and employment relationship of the parties. It is expressly acknowledged by each party that such consideration is the sole consideration to be received for this release, and such consideration is paid and accepted in full settlement of all injuries and damages arising out of the subject matter of this release, whether known or unknown, and whether or not ascertainable at the time of the execution of this instrument.



The Parties intend that this release apply mutually to all subsidiary and affiliate companies of the other and their respective predecessors, successors, and assigns, and all of their past, present, and future officers, directors, agents, and employees, and their respective heirs and legal representatives.

## **V. GENERAL PROVISIONS**

- A. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered (whether by personal delivery, telecopier, prepaid overnight carrier, or regular, certified or registered mail) to the parties at the following addresses (or at such other addresses as shall be specified by the parties by like notice):

If to Green:

William R. Green  
W. 415 Cliff Drive  
Spokane, WA 99204

If to Mines:

Mines Management, Inc.  
905 West Riverside, Suite 311  
Spokane, Washington 99201

- B. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.
- C. This Agreement is the entire agreement between the Parties and supersedes all other prior agreements and understandings, both written and oral, among the Parties, or any of them, with respect to the subject matter hereof.
- D. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns and is not intended to confer upon any other person any rights or remedies hereunder.
- E. This Agreement shall be governed by, and shall be construed and enforced in accordance with, the laws of the State of Washington. Venue to enforce any action arising from this Agreement shall lie in Spokane County, Washington.
- F. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument.
- G. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties.

- H. If any dispute relating to this Agreement occurs, the prevailing party shall be reimbursed by the other for all costs incurred in connection therewith, including without limitation, reasonable attorneys' fees.
- I. Mines has been represented by the law firm of Workland & Witherspoon, PLLC in this matter. Green has been advised to seek separate independent legal counsel and has either done so or freely chosen not to seek legal representation. Mines and Green hereby declare that they have carefully reviewed the terms of this Agreement, that they know the contents thereof, that they have voluntarily accepted the terms set forth herein and after any desired consultation with their respective attorneys, that they have signed this Agreement as their own free act and will.

IN WITNESS WHEREOF, Green and Mines have caused this Agreement to be executed individually or by its officer thereunto duly authorized as of the date first written above.

Mines Management, Inc.

By: \_\_\_\_\_  
Glenn Dobbs, President

\_\_\_\_\_  
William R. Green, Individually

Exhibit (10)(ii)  
Glenn Dobbs Executive Compensation Agreement

**EXECUTIVE COMPENSATION AGREEMENT**

**THIS AGREEMENT** is made effective the 20th day of November, 2003, by and between Mines Management, Inc., an Idaho corporation, (the "Company") and Glenn Dobbs (the "Executive" or "Dobbs").

**RECITALS**

The Executive is the President of the Company.

The Company desires to employ and retain the unique experience, ability and services of the Executive. The Company also desires to prevent any other competitive business from securing his services and utilizing his experience, background and know-how.

In the judgment of the Board of Directors of the Company (the "Directors"), it is of material value to the Company to settle the terms of future employment of Dobbs, and it is of value to Dobbs that his responsibilities, remuneration and other benefits be determined as hereinafter provided.

The terms, conditions and undertakings of this Agreement were submitted to and duly approved and authorized by the Company's Board of Directors at a meeting held February 24, 2003.

**IT IS, THEREFORE, AGREED:**

**1. Executive Employment and Term.**

The Company employs the Executive and the Executive accepts employment as the President of the Company from the effective date of this Agreement until December 31, 2003 ("Executive Employment"). The Company may at any time terminate the Executive's Employment on three (3) months' prior written notice pursuant to the conditions of Paragraph 8 of this Agreement. This Agreement shall automatically renew for additional one-year terms at December 31 of each year unless either party shall give ninety (90) days prior written notice pursuant to the conditions of Paragraph 8 of this Agreement.

**2. Duties.**

During the period of Executive Employment, the Executive shall devote full time to such employment. If elected, he shall serve as a Director and officer of the Company and any of its subsidiaries and affiliates, and shall perform duties customarily incident to such offices and all other duties the Board of Directors may from time to time assign to him. The Executive shall be entitled to annual vacations in a manner commensurate with his status as the President of the Company.

### 3. Executive Compensation.

During the term of this Agreement, the Company shall pay the Executive the following compensation:

- (a) The Company agrees to pay Dobbs and Dobbs agrees to accept as remuneration for services hereunder an annual salary in the amount of \$100,000, payable by equal monthly installments, exclusive of any other benefits referred to herein. The Salary shall take effect as of September 1, 2003 and shall automatically increase to an annual salary in the amount of \$120,000 effective on January 1, 2004. The parties agree the Company will review the said salary on an annual basis thereafter and will make any adjustments it determines are reasonable in the sole opinion of the Directors which may take into account, but is not limited to, Dobbs's performance and the financial and operating success of the Company in the preceding calendar year, and comparable salaries in the marketplace generally. Such review shall take place no later than August 15 of each year. In no case will the annual salary be reduced, unless by mutual written agreement. For greater certainty, annual salary as referred to herein shall not include any other payments such as bonuses, share options, benefits, etc. In addition, Dobbs has been granted 500,000 Incentive Stock Options ("Options") to acquire 500,000 shares of the Company's Common Stock pursuant to the Mines Management, Inc. 2003 Stock Option Plan. The options, which were granted by resolution of the Board of Directors on April 24, 2003 at an exercise price of \$1.60 per share vest under the following schedule:

250,000 Options	Fully vested as of the date hereof
50,000 Options	Upon each additional \$500,000 of financing achieved through the sale of the Company's Common Stock (to a maximum of 250,000 Options).

- (b) In the event the Executive ceases to be a full-time employee of the Company, either voluntarily or because of disability (as defined in Paragraph 6 of this Agreement), Executive shall be paid in accordance with Paragraph 4(a).
- (c) In the event of a change of control (as defined herein) resulting from a merger, share exchange or other non-hostile corporate take-over then Dobbs shall receive a bonus in an amount which shall be equal to thirty-six (36) months salary, such payment calculated on the Executive's annual salary at the highest rate in effect during the twelve (12) month period immediately preceding the closing date of the merger, share exchange or other non-hostile corporate take over plus 25% of such base amount in lieu of employee benefit programs and club fees.

### 4. Severance Compensation.

- (a) **Payment and Services.** In the event of the Executive's early termination during the term of this Agreement as provided in Paragraph 1, the Company shall continue to pay the Executive the annual compensation for twelve months, in the amount of his then current annual salary, as provided for in Paragraph 3(a) ("Severance Compensation Period"), payable as set forth in Paragraph 3(a). During this Severance Compensation

Period, the Executive shall at all reasonable times, to the extent his physical and mental condition permits, be available to consult with and advise the Company's officers, Directors and other representatives. Such payments shall be in addition to all other payments required under this Agreement. If the Executive's physical or mental condition prevents him from fulfilling his consulting or advisory duties, he shall nevertheless be paid the Severance Compensation as provided for in this Paragraph 4(a).

During the aforesaid period, the Company shall reimburse Executive for all out of pocket travel and expenses related to Company business, provided that such expenses are incurred at the request of the Company.

- (b) **Restriction.** During the Severance Compensation Period, the Executive shall be permitted to engage in any business and to perform services for his own account provided that such business and services shall not in any way whatsoever, either directly or indirectly, be in competition with, or be for a company that is in competition with, the Company.

## **5. Death.**

If the Executive dies during the term of this Agreement, termination of his employment shall be deemed to have been effected by the Company and the provisions of Paragraph 8(b) shall apply and any payment to be made to the Executive pursuant to this Agreement shall be paid to the legal representative of the Executive.

## **6. Disability.**

If the Executive becomes disabled during the term of this Agreement, all compensation due him as provided for in Paragraph 3 of this Agreement shall continue at the same rates as existed on the date of such disability. If such disability continues for a period of three (3) consecutive months or one hundred eighty (180) days in any twelve (12) consecutive month period, the Company, at its option, may thereafter upon written notice to the Executive or his personal representative, terminate the Executive.

In such event, the Severance Compensation Period shall commence immediately upon such termination of employment and shall continue as provided in Paragraph 4(a). All payments required under Paragraphs 3 and 4 shall be made on the payment dates specified therein. If the Executive receives disability payments from insurance policies paid for by the Company, the payments to the Executive during any period of disability shall not be reduced by the amount of disability payments received by him under any such insurance policy or policies.

## **7. Employee Benefits.**

The Executive is to obtain a medical insurance Plan at Company expense. The Executive shall be entitled to participation in the any other employee benefit plans (any of which may be modified by the Company) which are presently in force or which may be established by the Company. Such participation by the Executive shall be without cost to him.

## **8. Termination.**

- (a) The Executive may terminate this Agreement and his employment by giving the Company at least three (3) months' written notice. Any monies owed by the Company to the Executive up to the date of termination shall be paid to the Executive.
- (b) The Company may terminate this Agreement and the employment of the Executive without cause, in which event the Company shall be obligated to provide the Executive with a severance payment in lieu of notice. Such severance payment shall be payable on the fifth day following the Date of Termination and shall consist of the following amounts:
  - 1. An amount equal to the amount, if any, of any awards previously made to the Executive which have not been paid;
  - 2. The severance compensation set forth in Paragraph 4(a).;
  - 3. Termination of this Agreement in accordance with this Paragraph shall relieve the Company from any and all obligation, liability or claim by the Executive exclusive of monies owing to the Executive up to the Date of Termination.
- (c) The Company may terminate Executive at any time for Cause. For purposes of this Agreement, "Cause" shall mean termination by the Company of Executive Employment due to: (i) Executive engaging in illegal conduct including fraud or embezzlement; (ii) Executive being convicted of a felony; (iii) Executive's engagement in substance abuse which impairs his ability to perform the duties and obligations of his employment or causes harm to the reputation of the Company; or (iv) the willful breach of Executive's duties to the Company after written notice. Any monies owed by the Company to the Executive up to the date of termination shall be paid to the Executive. Executive shall be entitled to no further compensation.
- (d) Notwithstanding the provisions of Paragraphs 8(a) and 8(b), the parties acknowledge, given the particular enterprise and business of the Company, it is crucial and necessary that the Executive maintain a close relationship with the Directors of the Company based on mutual loyalty, respect and trust. Accordingly, the Company agrees that if the Executive elects to resign based on the sole reason there has been merger, share exchange or similar corporate action resulting in a change of control of the Company, then the Executive may give Notice of Resignation in writing to the Directors. The Notice of Resignation must contain at least one (1) month's notice and not more than three (3) months' notice. The Executive must exercise this right within twelve (12) months of the change of control as referred to herein.

At the time of resignation, the Company shall be obligated to provide the Executive with a severance payment on the fifth (5th) day following the Date of Resignation which shall consist of the following amounts:

1. an amount equal to the amount, if any, of any awards previously made to the Executive which have not been paid;
2. in lieu of further salary for period subsequent to the Date of Resignation, an amount which shall be equal to thirty-six (36) months salary, such payment calculated on the Executive's annual salary at the highest rate in effect during the twelve (12) month period immediately preceding the Date of Termination or Date of Resignation plus 25% of such base amount in lieu of employee benefit programs and club fees;
3. Any options previously granted to the Executive under the Company's incentive programs shall become immediately vested and exercisable.
4. For the purposes of this Agreement, change of control of the Company shall be evidenced by the acquisition by any person, or by any person and its affiliates, as such term is defined in the Securities Act of 1933, as amended, and whether directly or indirectly, of common shares of the Company which, when added to all other common shares of the Company at the time held by such person and its affiliates, totals for the first time 30 percent of the outstanding shares of the Company

The Executive agrees to accept such payment in full satisfaction of any and all claims he has or may have against the Company, and the Executive agrees to release the Company with respect to same upon payment of said sum, except for monies owing by either party to the other up to the time of resignation.

- (e) In the event that the Executive has been paid the bonus referred to in paragraph 3(c), then the provisions of paragraph 8(d) shall not apply to the Executive.
- (f) On the termination of his employment for any reason, the Executive agrees to deliver to the Company all documents, financial statements, records, plans, drawings and papers of every nature, in any way relating to the affairs of the Company and its subsidiaries or affiliated companies which may be in his possession or under his control.
- (g) The Executive shall not be required to mitigate the amount of any payments provided for under any Paragraph of this section by seeking other employment or otherwise, nor shall the amount any payment provided for in this section be reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise. In the event the Company terminates the services of the Executive or reassigns the Executive to any position within the organization different than his existing position, then the Company shall continue all payments provided for in Paragraphs 3(a) and 4(a) of this Agreement without acceleration of the time of any such payment, for the remaining term of this Agreement. Such payments shall continue notwithstanding the fact that the Executive does not





**13. Arbitration.**

If the parties should disagree as to any matter under this Agreement, the dispute shall be settled by arbitration in Spokane, Washington, and pursuant to the rules and regulations of, the American Arbitration Association. The decision of the American Arbitration Association shall be final and binding and may be enforced in any court in the state in which the arbitration proceedings are held. The prevailing party in such arbitration shall be entitled to recover reasonable attorneys fees and costs incurred in connection with such arbitration and the entry and enforcement of any subsequent judgment.

**14. Entire Agreement.**

This Agreement cannot be amended, modified or supplemented in any respect except by a subsequent written agreement entered into by both parties.

**15. Headings.**

Headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

**16. Governing Law.**

This Agreement shall be construed in accordance with and governed by the laws of the State of Washington. Venue for any legal action arising in connection with this Agreement shall lie in Spokane County, Washington.

**17 Counterparts.**

This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement the day and year first above written.

Mines Management, Inc.

Executive

By: \_\_\_\_\_  
Roy G. Franklin, Secretary

\_\_\_\_\_  
Glenn Dobbs, President

Code of Ethics

**EXHIBIT B**  
**MINES MANAGEMENT, INC.**  
**CODE OF ETHICS FOR CEO AND SENIOR FINANCIAL OFFICERS**

1. The CEO and all senior financial officers are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the SEC. Accordingly, it is the responsibility of the CEO and each senior financial officer promptly to bring to the attention of the Disclosure Committee (or in the event that the Company has not established a Disclosure Committee, to the Board of Directors) any material information of which he or she may become aware that affects the disclosures made by the Company in its public filings or otherwise assist the Disclosure Committee in fulfilling its responsibilities.
2. The CEO and each senior financial officer shall promptly bring to the attention of the Disclosure Committee and the Audit Committee (or in the event that the Company has not established an audit committee, to the Board of Directors) any information he or she may have concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
3. The CEO and each senior financial officer shall promptly bring to the attention of the General Counsel or the CEO and to the Audit Committee any information he or she may have concerning any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
4. The CEO and each senior financial officer shall promptly bring to the attention of the General Counsel or the CEO and to the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof, or of violation of these procedures.
5. The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of violations of these procedures by the CEO and the Company's senior financial officers. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to these procedures, and shall include written notices to the individual involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in questions had committed other violations in the past.

## Exhibit 31.1

### Certification

I, Glenn M. Dobbs, certify that:

- (1) I have reviewed this annual report on Form 10-KSB of Mines Management, Inc.
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
- (4) The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
- (5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 27, 2004

/s/ Glenn M. Dobbs

Glenn M. Dobbs

President, Chief Executive Officer  
and Principal Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Mines Management, Inc., (the "Company") on Form 10-KSB for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glenn M. Dobbs, President and Chief Executive Officer of Mines Management, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2004

/s/ Glenn M. Dobbs

Glenn M. Dobbs

President, Chief Executive Officer

And Principal Financial Officer

Exhibit 99(i)

**MINES MANAGEMENT, INC  
AUDIT COMMITTEE CHARTER**

**I. Purpose**

The Audit Committee of the Mines Management Board of Directors is responsible for recommending, appointing, compensating and overseeing the external auditors to the Board; receiving, reviewing, and forwarding to the Board the annual financial report of the external auditors; and such other matters as may warrant its attention.

The Audit Committee's role is one of oversight. Management is responsible for preparing the Corporation's financial statements, and the independent auditors are responsible for auditing those financial statements. Management is responsible for the fair presentation of the information set forth in the financial statements in conformity with generally accepted accounting principles ("GAAP"). The independent auditors' responsibility is to provide its opinion, based on its audits, that the financial statements fairly present, in all material respects, the financial position, results of operations and cash flow of the Corporation in conformity with GAAP. It is the duty of the Audit Committee to conduct investigations and resolve disagreements, if any, between management and the independent auditors, or to assure compliance with applicable laws and regulations.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it shall have direct access to the independent auditors as well as anyone in the Corporation. The Board and the Audit Committee are to represent the Corporation's stockholders. Accordingly, the independent auditors are accountable to the Board and the Audit Committee.

**II. Membership of Audit Committee**

The Audit Committee shall be comprised of two or more directors and one or more independent members as determined and appointed annually by the Board, each of whom must, for purposes of this Committee, be willing and able to function independent of management and free from any relationship (such as receipt of consulting fees) that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. Unless a Chair is appointed by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

Each member shall in the judgment of the Board of Directors be "financially literate" or must become "financially literate" within a reasonable period of time after appointment to the Committee. The Board will determine, in its business judgment, whether a director meets the financial literacy requirement. At least one member of the Committee shall in the judgment of the Board of Directors have accounting or financial management expertise. The terms financial literacy and financial expertise are defined as follows:

a. Financial Literacy--The ability to read and understand fundamental financial statements, including a Balance Sheet, Income Statement and Statement of Cash Flows.

b. Financial Expertise--Past employment experience in finance or accounting, CPA or comparable experience resulting in financial sophistication, including being a CEO or senior officer with financial oversight responsibilities.

Committee members shall be elected by the Board at the annual meeting of the Board of Directors; members shall serve until their successors shall be duly elected and qualified.

### III. Meetings and Reports

The Audit Committee shall meet at least three times annually, or more frequently as circumstances dictate. The Audit Committee is to meet in separate executive sessions with the Corporation's Chief Financial Officer or Principal Financial Officer, its independent auditors and its internal auditor at least once each year and at other times when considered appropriate. The Audit Committee shall provide regular reports to the Board. For the transaction of business at any meeting of the Committee, two members shall constitute a quorum. Meetings may be held in person, telephonically, or electronically.

### IV. Scope of Audit Committee Work

In accomplishing its assigned responsibilities, the Audit Committee will review the following listed matters and such other matters as may warrant its attention. It may, with approval of the Board, engage additional assistance to undertake such reviews of financial management performance as it deems necessary.

a. Recommend to the Board of Directors the selection of Mines Management's external auditors and the annual fees to be paid for services rendered by the external auditors, review each proposed audit plan developed by the external auditors, periodically review the performance of the external auditors, and recommend to the Board any proposed retention or discharge of the external auditors.

b. Review the Corporation's annual financial statements and reports as required by the Bylaws, including the compliance of the Corporation's accounting and financial management systems and reports with generally accepted accounting principles.

c. Review and forward to the Board the annual financial management letter of the external auditors, with such comments of its own as may be appropriate.

d. Periodically review the Corporation's systems of internal controls, including its risk management policy and any accompanying insurance coverage, and make recommendations to the Board for changes it considers desirable.

e. Review, with the Corporation's general counsel, any legal matter that could have a significant impact on the Corporation's financial statements.

- f. Annually review the expense accounts and perquisites of Management, including their use of corporate assets, and consider the results of any review of these areas by the internal auditor or the outside auditor.
- g. Review all material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses.
- h. Review and discuss with Management all disclosures made by the Company concerning any material changes in the financial condition or operations of the Company.
- i. Review annually the independent auditors' letter of the recommendations to the Committee.
- j. Review and approve all related-party transactions.
- k. Establish procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- l. Resolve disagreements relating to accounting, internal control or auditing issues.

#### V. Resources

The Audit Committee shall have the authority to retain independent legal, accounting and other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall determine the extent of funding necessary for payment of compensation to the independent auditors for purpose of rendering or issuing the annual audit report and to any independent legal, accounting and other consultants retained to advise the Committee.

MINES MANAGEMENT, INC.  
AUDIT COMMITTEE PRE-APPROVAL POLICY

**I. STATEMENT OF PRINCIPLES**

The Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services do not impair the auditor's independence. Unless a type of service to be provided by the independent auditor has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee.

The appendices to this Policy, which are for illustrative purposes only, describe the Audit, Audit-related, Tax and All Other services that have the general pre-approval of the Audit Committee. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will annually review and pre-approve the services that may be provided by the independent auditor without obtaining specific pre-approval from the Audit Committee. The Audit Committee will revise the list of general pre-approved services from time to time, based on subsequent determinations. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

**II. DELEGATION**

The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

**III. AUDIT SERVICES**

The annual Audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Company structure or other matters.

In addition to the annual Audit services engagement specifically approved by the Audit Committee, the Audit Committee may grant general pre-approval for other Audit services, which are those services that only the independent auditor reasonably can provide. The Audit Committee has pre-approved the Audit services listed in Appendix A. All other Audit services not listed in Appendix A must be specifically pre-approved by the Audit Committee.



#### **IV. AUDIT-RELATED SERVICES**

Audit-related services are assurances and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the independent auditor. The Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor, and has pre-approved the Audit-related services listed in Appendix B. All other Audit-related services not listed in Appendix B must be specifically pre-approved by the Audit Committee.

#### **V. TAX SERVICES**

The Audit Committee believes that the independent auditor can provide Tax services to the Company such as tax compliance, tax planning and tax advice without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations. The Audit Committee has pre-approved the Tax services listed in Appendix C. All Tax services involving large and complex transactions not listed in Appendix C must be specifically pre-approved by the Audit Committee.

#### **VI. ALL OTHER SERVICES**

The Audit Committee may grant general pre-approval to those permissible non-audit service classified as All Other services that it believes are routine and recurring services, and would not impair the independence of the auditor. The Audit Committee has pre-approved the All Other services listed in Appendix D. Permissible All Other services not listed in Appendix D must be specifically pre-approved by the Audit Committee.

#### **VII. PRE-APPROVAL FEE LEVELS**

Pre-approval fee levels for all services to be provided by the independent auditor will be established annually by the Audit Committee. Any proposed services exceeding these levels will require specific pre-approval by the Audit Committee.

#### **VIII. PROCEDURES**

Requests or applications to provide services that require specific approval by the Audit Committee will be submitted to the Audit Committee by both the independent auditor and the Chief Financial Officer, or the person performing such function for the Company, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

## APPENDIX A

### Pre-Approved Audit Services for Fiscal Year \_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_

<b><u>Service</u></b>	<b><u>Range of Fees</u></b>
Statutory audits or financial audits for subsidiaries or affiliates of the Company	
Services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings (e.g., comfort letters, consents) and assistance in responding to SEC comment letters	
Consultations by the Company's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, FASB, of other regulatory or standard settling bodies (Note: Under SEC rules, some consultations may be "audit-related" services rather than "audit" services)	

## Appendix B

### Pre-Approved Audit-Related Services for Fiscal Year \_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

<u>Service</u>	<u>Range of Fees</u>
Due diligence services pertaining to potential business acquisitions/disposition	
Financial statement audits of employee benefit plans	
Agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters.	
Internal control reviews and assistance with internal control reporting requirements.	
Consultations by the Company's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, FASC, or other regulatory or standard-setting bodies (Note: Under SEC rules, some consultations may be "audit" services rather than "audit-related" services)	
Attest services not required by statute or regulation	

## Appendix C

### Pre-Approved Tax Services for Fiscal Year \_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_

<b><u>Service</u></b>	<b><u>Range of Fees</u></b>
U.S. federal, state and local tax planning and advice	
U.S. federal, state and local tax compliance	
International tax planning and advice	
International tax compliance	
Review of federal, state, local and international income, franchise, and other tax returns	

## Appendix D

**Pre-Approved All Other Services for Fiscal Year \_\_\_\_**

Dated: \_\_\_\_\_, \_\_\_\_\_

<b><u>Service</u></b>	<b><u>Range of Fees</u></b>

## **Exhibit 1**

### **Prohibited Non-Audit Services**

- (a) Bookkeeping or other services related to the accounting records of financial statements of the audit client, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements.
- (b) Financial information systems design and implementation, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements.
- (c) Appraisal or valuation services, fairness opinions or contribution-in-kind reports, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements.
- (d) Actuarial services, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements.
- (e) Internal audit outsourcing services, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements.
- (f) Management functions
- (g) Human resources
- (h) Broker-dealer, investment adviser or investment banking services
- (i) Legal services
- (j) Expert services unrelated to the audit